

SNA News

Number 37

December 2014

An information service of the Intersecretariat
Working Group on National Accounts (ISWGNA)
published by UNSD
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THE DELINEATION OF HEAD OFFICES AND HOLDING COMPANIES IN THE NATIONAL ACCOUNTS Clarification by the ISWGNA

Introduction

1. The 2008 SNA contains a more explicit definition of financial services than the 1993 SNA, which helps to ensure that financial services other than financial intermediation are appropriately captured. The 2008 SNA has also introduced a more detailed classification of the financial corporations sector to allow for more flexibility and an improved consistency with other monetary and financial statistics, such as those of the International Monetary Fund (IMF) and the European Central Bank (ECB).

2. In addition, the 2008 SNA (*paragraphs 4.53 - 4.54*) explicitly distinguishes between head offices and holding companies as follows:

- A holding company (HC) is described as a unit that holds the assets of subsidiary corporations but does not undertake any management activities.
- The activities of a head office (HO) include the overseeing and managing of other units of the enterprise and managing the day-to-day operations of their related units.

3. The distinction between HOs and HCs directly affects the compilation and analysis of the institutional sectors within an economy. According to the 2008 SNA, HCs are to be classified in the financial corporations sector, while HOs are allocated to the non-financial corporations sector, unless all or most of their subsidiaries are financial corporations. The

1993 SNA did not give any explicit guidance on the treatment of HOs, the whole group of 'holding corporations' being defined as corporations owning and directing a group of subsidiaries, and to be classified according to the main activities of their subsidiaries.

4. The delineation and classification of HOs and HCs - usually holders of significant assets (and liabilities) and thus important receivers and payers of property income - may have a significant impact on the allocation of primary income in the non-financial sector accounts. Consequently, it was considered relevant to develop more specific guidance to arrive at an internationally comparable treatment of these units.

5. A Task Force on Head Offices, Holding Companies and Special Purpose Entities, under the auspices of the Inter Secretariat Working Group on National Accounts (ISWGNA), considered the delineation of HOs and HCs and the treatment of Special Purpose Entities (SPEs). The Task Force submitted their results to the Advisory Expert Group on National Accounts (AEG), for consideration at its 8th meeting, 29-31 May 2013, Luxembourg. The final Task Force report is available at:

http://ec.europa.eu/eurostat/documents/737960/738007/Final_Report_Task_Force_SPEs.pdf/9390b392-62d3-45b4-a4ee-fd9ed7a78da2

6. Although the Task Force also considered the treatment of special purpose entities (SPEs), this work is still ongoing, particularly in relation to the treatment of intellectual property products (IPPs). This issue is being

further investigated by the UNECE Task Force on Global Production.

7. It should be noted that SPEs created or owned by general government have not been analyzed and categorized by the Task Force. In the European Union, a case by case analysis of this type of entities is undertaken, with sometimes quite specific and very detailed rules.

8. The conclusions presented in this note take into account the AEG recommendations.

Institutional independence

9. The 2008 SNA describes entities that cannot act independently from its parents as “passive holders” and “artificial subsidiaries”. “Passive holders” and “artificial subsidiaries” are not treated as a separate institutional unit unless they are resident in an economy different from that of their parent.

10. At the same time, the 2008 SNA broadens the financial corporation sector to include a sub-sector “captive financial institutions and money lenders”. A HC that is only holding assets (controlling levels of equity) is an example of a captive financial institution (2008 SNA, *paragraph 4.114 b*).

11. Consequently, it is necessary to elaborate on the criteria to determine the institutional independence of HCs that are themselves subsidiaries of (resident) corporations.

Distinguishing head offices and holding companies from other institutional units

12. Both HOs and HCs are often referred to as holding companies, because both of them have relations to other entities, namely, their subsidiaries.

13. Hence, information on the structure of the balance sheet is one tool to determine whether an institutional unit is a HO or HC.

14. Although currently balance sheet data are not always available in (business) registers, it is strongly recommended to make efforts towards making available this kind of information. The (future) availability of balance sheet data in business registers would most certainly facilitate and economise the identification of HOs and HCs in register data or similar data sources. Balance sheet data are generally available in the context of central balance sheet offices, tax authorities’ fiscal

databases, and specialized surveys. The incorporation of this kind of information into business registers is an important task, amongst others, to ensure the correct identification of HOs and HCs.

15. Where balance sheet data are not available, other supporting information has to be analysed. The information on the relation to an enterprise group (control and ultimate parent, affiliates) in conjunction with small turnover may be used for identifying HOs and HCs.

Distinguishing between head offices and holding companies

16. From a conceptual point of view the distinction between HOs and HCs is clear. However, applying the concepts in practice is more complicated. The statistical identification of these units, as either a HO or a HC, is often based on a self-classification by the unit, or an assessment and/or guided registration by national statistical authorities. This pure labelling of an entity as “holding company” or “managing fund” may often be misleading. Therefore, feedback loops from a central information point to the corporation and other data providers are necessary in order to achieve a consistent treatment of entities in the various registers.

17. It is recommended to follow a strict definition of HCs (in the sense that HCs do not provide any management services) when classifying institutional units as HCs.

18. Information on variables like management control is quite relevant for the distinction between HOs and HCs. At the same time, such data are usually available for large units or large groups only. For units where such information is not available, or only available at great cost in practice, it is recommended that the distinction between HOs and HCs should be based on an employment criterion.

19. A one dimensional application of the employment criterion, classifying all units with positive employment as HOs, will not necessarily lead to reliable results. Requirements set out by national legislation in relation to the institutional set-up of HCs may result in some employment being recorded in registers for these entities too. However, well-designed employment thresholds can be the basis for a practical rule for distinguishing HOs.

20. Other criteria may refine the delineation process. This may include the analysis of sales. Does the entity have substantial sales of goods and services? As HCs usually don't have turnover, this may be an indicator for a unit being a HO. Also additional information regarding the employment may be considered: does the employment structure reflect the status of the entity? For example, the employment of very senior staff may be a signal that one is dealing with a HO.

21. Finally, it should be noted that the application of practical criteria won't cover all cases. Some HOs or HCs may show different characteristics and therefore need an individual analysis. In this respect, costs and benefits should be appropriately balanced and transparency should be enhanced by the provision of adequate metadata.

Conclusions

22. The ISWGNA therefore provides a clarification on the delineation of HOs and HCs as described below:

Institutional independence

23. To determine the institutional independence of HCs and HOs the following principles apply:

- The standard criteria for an institutional unit should always be applied – thus also for HOs and HCs.
- Entities owned by non-residents are always to be considered institutional units.
- For entities wholly owned by a single resident unit, “no employees and no compensation of employees” is not a sufficient criterion to conclude that there is a lack of institutional independence; however, it can be used as an indicator to consider units for further investigation to consider their lack of independence.
- Having multiple parents or shareholders is a sufficient qualification for a unit being an institutional unit.

- HOs are always to be considered as separate institutional units.

Distinguishing HOs and HCs from other institutional units

24. Using information on the structure of the balance sheets, one may identify HCs and HOs as follows:

- An entity having at least 50 per cent of its assets consisting of equity vis-à-vis its subsidiaries can be considered as a practical indicator for the identification of such entities as HCs or HOs.

Distinguishing between HOs and HCs

25. A strict definition of HCs (in the sense that HCs do not provide any management services) should be used when classifying institutional units as HCs.

26. For units where information on variables like management control is not available, or only available at great cost in practice, it is recommended to base the distinction between HOs and HCs on an employment criterion, as follows:

- HOs are actively engaged in production, although they may have noticeably fewer employees, and more at a senior level, than its subsidiaries. However, having zero employment is a clear indication of not being a HO.
- On the other hand, HCs simply holding assets may do this with very few or without any employed personnel.
- Employment thresholds for the delineation between HOs and HCs should be determined taking into account national circumstances. In particular, national legislative requirements for the number of employees of HCs should be taken into account. As a general indication, employment of three or more persons, or employment exceeding the national legal minimum employment, is a first indicator for a unit being a HO.

9TH MEETING OF THE ADVISORY EXPERT GROUP ON NATIONAL ACCOUNTS

By UNSD

In accordance with its mandate from the United Nations Statistical Commission (UNSC), the Advisory Expert Group on National Accounts (AEG) is assisting the Intersecretariat Working Group on National Accounts (ISWGNA) in resolving issues on the research agenda of the SNA and emerging research issues and in reviewing the SNA implementation programme. Within this context, the 9th Meeting of the AEG was held from 8 to 10 September 2014, Washington DC.

The main purpose of the meeting was to discuss guidance on issues related to the implementation of the SNA, in particular on the following topics:

- accounting for pensions;
- global production arrangements;
- the valuation of land and other non-financial assets;
- the recording of flows and stocks of international organizations;

- the SDMX-initiative related to national accounts, balance of payments and foreign direct investment;
- the use of indicators on deficit and debt;
- manuals, handbooks and other guidance;
- statistical units in supply and use tables and institutional sector accounts;
- distribution of income, consumption and wealth; and
- practical national accounts issues such as backcasting and the use of big data for national accounts compilation.

All the paper discussed at the 9th meeting of the AEG as well as the conclusions of the meeting are available on the AEG website hosted by the UNSD at:

<http://unstats.un.org/unsd/nationalaccount/aeg/2014/M9-2.asp>

HANDBOOKS AND GUIDANCE DOCUMENTS ON NATIONAL ACCOUNT AND SUPPORTING STATISTICS

By ISWGNA

As part of its mandate and programme of work, the ISWGNA coordinates and facilitates the preparation of manuals and handbooks for guidance and training in the implementation of the SNA and supporting statistics in order to strengthen the statistical capacity in countries for compiling national accounts. The list below presents the handbooks that have been finalized.

- **Handbook on Financial Production, Flows and Stocks in the System of National Accounts** (UNSD/ECB). Available at: <http://unstats.un.org/unsd/nationalaccount/docs/FinancialHB-wCover.pdf>
- **Guidelines on Integrated Economic Statistics** (UNSD). Available at: <http://unstats.un.org/unsd/nationalaccount/docs/IES-Guidelines-e.pdf>

- **International Recommendations for the Index of Industrial Production (Revised)** (UNSD). Available at:

http://unstats.un.org/unsd/industry/iip_review.asp

- **The Impact of Globalization on National Accounts** (UNECE-Eurostat-OECD). Available at:

http://www.unece.org/fileadmin/DAM/stats/publications/Guide_on_Impact_of_globalization_on_national_accounts_web.pdf

- **The 2008 SNA – Concepts in Brief** (World Bank). Available at:

<http://unstats.un.org/unsd/nationalaccount/docs/2008SNA-ConceptsBrief.pdf>

- **The 2008 SNA – Compilation in Brief** (World Bank). Available at:

<http://unstats.un.org/unsd/nationalaccount/docs/2008SNA-CompilationBrief.pdf>

- **Government Finance Statistics Manual 2014** (IMF). Available at: <http://www.imf.org/external/np/sta/gfsm/>
- **Balance of Payments and International Investment Position Compilation Guide** (IMF). Available at: <https://www.imf.org/external/pubs/ft/bop/2007/bop6comp.htm>
- **Glossary on Rapid estimates** (Eurostat). Available at: http://ec.europa.eu/eurostat/statistics-explained/index.php/Category:Rapid_estimates_glossary
- **Manual on Measuring Research and Development in ESA 2010** (Eurostat). Available at: <http://ec.europa.eu/eurostat/web/products-manuals-and-guidelines/-/KS-GQ-14-004>
- **Handbook on quarterly national accounts** (Eurostat). Available at: <http://ec.europa.eu/eurostat/web/products-manuals-and-guidelines/-/KS-GQ-13-004>
- **Essential SNA: Building the Basics, 2014 edition** (Eurostat). Available at: <http://ec.europa.eu/eurostat/en/web/products-manuals-and-guidelines/-/KS-GQ-14-008>
- **Manual on the Changes between ESA 95 and ESA 2010, 2014 Edition** (Eurostat). Available at: <http://ec.europa.eu/eurostat/web/products-manuals-and-guidelines/-/KS-GQ-14-002>
- **Manual on Government Deficit and Debt - Implementation of ESA 2010, 2014 edition** (Eurostat). Available at: <http://ec.europa.eu/eurostat/web/products-manuals-and-guidelines/-/KS-GQ-14-010>
- **Manual on goods sent abroad for processing – 2014 edition** (Eurostat). Available at: <http://ec.europa.eu/eurostat/web/products-manuals-and-guidelines/-/KS-GQ-14-003>
- **Manual on Regional Accounts Methods, 2013 edition** (Eurostat). Available at: <http://ec.europa.eu/eurostat/en/web/products-manuals-and-guidelines/-/KS-GQ-13-001>
- **Manual on Measuring Capital** (OECD). Available at: <http://www.oecd.org/std/productivity-stats/43734711.pdf>
- **Handbook on Deriving Capital Measures of Intellectual Property Products** (OECD). Available at: <http://www.oecd.org/std/na/44312350.pdf>
- **Methodological Guide for Developing Producer Price Indices for Services, 2014 edition** (Eurostat-OECD). Available at: <http://www.oecd.org/std/prices-ppp/Eurostat-OECD%20SPPI%20Guide%20Provisional%20Draft.pdf>

DECISIONS ON NATIONAL ACCOUNTS BY THE UNITED NATIONS STATISTICAL COMMISSION AT ITS 45TH SESSION

By UNSD

The forty-fifth session of the United Nations Statistical Commission was held in New York from 4 to 7 March 2014. Under agenda item 3(d), the Commission discussed the report¹ of the ISWGNA describing: the progress on the changeover to the 2008 SNA; the response of the ISWGNA to the request of the Commission with regard to scaling up the implementation of the 2008 SNA and supporting statistics at the country level; the activities of the members of the ISWGNA and of the regional commissions; and the status of

the reporting of national accounts data. The Statistical Commission²:

(a) Welcomed the report of the ISWGNA and expressed its appreciation for the work done by the Working Group over the past year.

(b) Endorsed the programme of work of the ISWGNA and the AEG, appreciated the priority given to addressing issues emerging from the implementation of the 2008 SNA, urged the ISWGNA to expedite resolving such issues, and requested the Working Group to

¹ E/CN.3/2014/5. Available at <http://unstats.un.org/unsd/statcom/doc14/2014-5-SNA-E.pdf>

² E/2014/24-E/CN.3/2014/35. Available at: <http://unstats.un.org/unsd/statcom/doc14/2014-Report-E.pdf>

report on the outcomes to the Commission in due course;

(c) Expressed appreciation for the activities undertaken by international organizations, regional commissions, other regional organizations and countries providing technical assistance to facilitate the implementation of the 2008 SNA and supporting statistics;

(d) Appreciated the progress on the completion of a number of manuals, handbooks and guidelines that facilitate the implementation of the 2008 SNA and supporting statistics, urged the ISWGNA to expedite the development of the handbooks and guidelines within a stipulated timeline, and requested that these materials be made available in all the official languages of the United Nations;

(e) Requested the ISWGNA, the regional commissions and other international and regional organizations to harmonize the collection, validation and dissemination of the data collected from countries to avoid unnecessary duplication, taking into consideration the Statistical Data and Metadata Exchange data transmission mechanism;

(f) Welcomed the report prepared by UNSD, in consultation with the AEG, selected countries and the ISWGNA, on ways to scale up the coordination, the advocacy and the resources for the implementation of the 2008 SNA at the national level;

(g) Recognized that to scale up the coordination, the advocacy and the resources for the implementation of the 2008 SNA at the national level requires an integrated statistics approach, adopted by the Commission for the global initiative on the implementation of the

2008 SNA and supporting statistics and building on, and in support of, the ongoing regional statistical capacity development programmes;

(h) Confirmed that the scope of a capacity-building programme on integrated statistics and its ramifications for coordination and global governance mechanisms of such a programme extends beyond the remit of the mandate of the ISWGNA;

(i) Expressed the significant need for technical assistance to many developing countries in adopting an integrated statistics programme in support of the implementation of the 2008 SNA, in this context requested the development of an integrated business statistics programme and related guidelines on programme management;

(j) Recognized that countries should take ownership of the required actions for strengthening the statistical production process, institutional arrangements, and a communication strategy with users, to facilitate the compilation of the required scope and detail of economic statistics and national accounts, based on country priorities for evidence based policymaking;

(k) Supported the formation of a “friends of the chair” group to work out the modalities for establishing a harmonized integrated statistics programme, focusing on overcoming national issues in producing internationally comparable macroeconomic accounts, taking into consideration existing statistical capacity development programmes in close collaboration with the regional commissions and other international and regional organizations.

MEETINGS AND SEMINARS

Global Conference on a Transformative agenda for Official Statistics, New York, 15 - 16 January 2015. The Conference is organized jointly by UNSD and Eurostat with the objective to formulate an adequate response to the increased demand for detailed and timely data to monitor progress on the goals and targets of the post-2015 development agenda. Further information is available online at: <http://unstats.un.org/unsd/nationalaccount/workshops/2015/NewYork/lod.asp>

Forty-sixth session of the *United Nations Statistical Commission*, New York, 3 - 6 March 2015. Further information is available online at: <http://unstats.un.org/unsd/statcom/sc2015.htm>

W(h)ither the System of National Accounts?, OECD Headquarters in Paris, France 16 - 17 April 2015. This Conference on the future of national accounts is organized by the International

Association for Research in Income and Wealth (IARIW) and the Organisation for Economic Cooperation and Development (OECD). Further information on the registration for this conference and the draft programme is available online at: <http://www.oecd.org/std/na/whither-the-sna-paris-april-16-17-2015.htm> and <http://iariw.org/c2015oecd.php>.

UNECE-Eurostat-OECD Group of Experts on National Accounts: Measuring Global Production, Geneva, Switzerland, 7 - 8 July 2015.

EFTA-UNECE Workshop on Implementation of the 2008 SNA in EECCA countries, 6 - 8 (provisional) May 2015 Istanbul, Turkey.

Regional Course on Statistical Business Registers: Making a Business Case for an Operational Statistical Business Register, Perak, Malaysia, 26 - 30 January 2015, organized by the Statistical Institute for Asia and the Pacific (SIAP) in collaboration with Australian Bureau of Statistics, Department of Statistics Malaysia and ESCAP Statistics Division.

Editorial Note

SNA News and Notes is a bi-annual information service of the ISWGNA prepared by the United Nations Statistics Division (UNSD). It does not necessarily express the official position of any of the members of the ISWGNA (European Union, IMF, OECD, United Nations and World Bank).

SNA News and Notes is published in four languages (English, French, Russian and Spanish) and can be accessed on the internet: <http://unstats.un.org/unsd/nationalaccount/snaneews.asp>

The website of the ISWGNA includes, in addition to information about the ISWGNA activities, a platform for monitoring the implementation of the SNA with links to the work programmes of the ISWGNA members and regional commissions; information about the research agenda of the SNA; and the activities of the AEG. The website is available at:

<http://unstats.un.org/unsd/nationalaccount/iswgna.asp>. Searchable PDF copies of the 2008 SNA and earlier versions of the SNA are available at <http://unstats.un.org/unsd/nationalaccount/sna.asp>.

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